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Taipei's Arms Procurement Dilemma: Implications for Defending Taiwan

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Conclusions

Between 1995 and 2002, Taipei imported more than \$20 billion worth of foreign weaponry, making it the world's second-largest arms importer (after Saudi Arabia). In recent years, however, Taiwanese arms purchases have fallen off sharply, and new orders for arms fell to less than \$2 billion over the past five years.

China, meanwhile, has continued to aggressively buy foreign arms, and Beijing's decade-long effort to reequip the People's Liberation Army (PLA) with more advanced armaments is beginning to erode Taiwan's long-standing qualitative edge in military equipment. Consequently, there is growing concern that the military balance across the Taiwan Strait—once strongly favoring Taiwan—is tilting in favor of China.

The Bush administration in 2001 attempted to help remedy this growing imbalance by offering Taiwan a wide range of advanced conventional weapons, in particular, diesel-electric submarines, maritime patrol aircraft, and missile defenses. Taipei has so far not acted on most of these arms offers.

Taiwan's declining defense budget has greatly impeded new arms purchases. Taipei recently announced it would request a ten-year, \$15 billion special appropriations budget to fund many of these new arms programs. However, this budget must first be approved by Taiwan's parliament, and even then it would be several years before any of these weapons could be operationally deployed.

Domestic pressures to aid Taiwan's ailing defense industry are also delaying critical arms procurement decisions. Some in Taiwan want to build submarines under license rather than buy them off the shelf, for example, even though this would be a riskier and more expensive option.

Taipei's continuing unwillingness or inability to conclude these arms purchases risks conveying the notion that it is not serious about its own self-defense. Furthermore, these delays may give the impression that Taipei does not take seriously the military threat from China or that it is trying to "free-ride" on the U.S. security guarantee.

There is growing concern among some circles in both Washington and Taipei that the military balance across the Taiwan Strait—once strongly favoring Taiwan—is tilting in favor of China. Beijing's decade-long effort to reequip the PLA with more advanced armaments is beginning to erode Taiwan's long-standing qualitative edge in military equipment. Both China and Taiwan procured considerable numbers of new weaponry during the 1990s, some via domestic production but most through arms imports. Between 1995 and 2002, for example, China imported some \$9.3 billion worth of arms, mostly from Russia; these imports included more than 150 Su-27 and Su-30 fighter aircraft, four Kilo-class submarines, two Sovremenny-class destroyers (armed with state-of-the-art supersonic antiship cruise missiles), and more than 800 surface-to-air missiles.

However energetic these Chinese activities may seem, however, they paled in comparison to Taiwan's arms imports during the same period. Between 1995 and 2002, Taipei took delivery of more than \$20 billion worth of foreign weaponry, making Taiwan the world's second-largest arms importer (after Saudi Arabia). Taiwanese arms imports over the past decade included 210 fourth-generation fighter aircraft (150 F-16s and 60 Mirage 2000-5s), six Lafayette-class frigates, 81 surplus AH-1 attack helicopters, six E-2T airborne early warning aircraft, 410 M-60 tanks, 146 M-109 self-propelled howitzers, 221 Harpoon antiship cruise missiles, 1,300 Stinger surface-to-air missiles, 1,800 TOW-2A antitank guided weapons, and several hundred air-to-air missiles, including 200 AMRAAMs. During this same period, Taiwan began deploying an air-defense missile system based on the Patriot PAC-2 missile and constructed eight U.S.-designed Perry-class frigates under license. In 2003, Taipei chose a U.S. defense firm to develop a new military-wide command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) network.

In recent years, however, Taiwanese arms *purchases*—as opposed to *deliveries*—have fallen off sharply. Whereas Taipei signed \$16 billion worth of arms import agreements in the early 1990s, new orders for foreign arms fell to less than \$2 billion during the latter half of the decade. Beijing, in contrast, has continued to aggressively buy foreign weaponry. In fact, it signed new arms import agreements in excess of \$11 billion since 1999; in 2002 alone, it purchased \$3.6 billion worth of foreign weapon systems (again, mainly from Russia). These imports are being supplemented by greatly expanded domestic arms production and, consequently, by 2010 the PLA will have added to its arsenal at least 300 modern fighter aircraft (including top-of-the-line Su-30 attack aircraft and the first of several hundred indigenously built F-10 fighter jets), up to 25 new diesel-electric or nuclear-powered attack submarines, around 20 modern large surface combatants (destroyers and frigates), and more than 40 medium and heavy amphibious lift ships. Many of these new weapons platforms are armed with more capable antiship, air-to-air, or land-attack missiles and munitions. In addition, China currently has at least 450 short-range ballistic missiles deployed opposite Taiwan and is adding to this force at a rate of 50 to 75 missiles per year. Consequently, both Taiwan's defense ministry and the U.S. Department of Defense have warned that, in the absence of counterbalancing efforts by Taiwan, the PLA could in a few years be in a much more advantageous position to intimidate, attack, or even invade Taiwan.

The administration of George W. Bush—stating it would do “whatever it took to help Taiwan defense herself”—has attempted to help remedy this growing imbalance by offering Taiwan a wide range of advanced conventional weaponry. In April 2001, the Bush administration approved the largest sale of U.S. arms to Taiwan in nearly a decade. The most critical pieces of equipment included in this offer were eight diesel-electric submarines,

twelve P-3C maritime patrol aircraft for antisubmarine warfare, and four surplus Kidd-class destroyers. Additionally, the administration approved the sale of twelve MH-53 minesweeping helicopters and fifty-four AAV7A1 amphibious assault vehicles, as well as the sale of additional M-109 howitzers and Harpoon antiship cruise missiles. AH-64 attack helicopters and the Patriot PAC-3 air-defense system, which has an anti-tactical ballistic missile capability, were later added to this list.

Taipei has yet to act on any of these Bush administration arms offers, save a decision in May 2003 to acquire the four Kidds. As a result, many government officials and pro-Taiwan supporters in the United States have become increasingly frustrated with Taiwan's slowness to come to a decision regarding what they see as crucial arms procurement needs. In their defense, Taiwan officials and others have offered several explanations for their inaction and delay.

Cost Constraints and Complaints

When it comes to arms procurement, Taipei is increasingly caught between a rock and a hard place: a declining defense budget versus a hefty price tag for many of the new weapons it wants to buy. The cost of buying eight diesel-electric submarines, for example, will likely run between \$8.6 billion and \$11.7 billion—more than \$1 billion apiece, or almost as much as a nuclear-powered submarine. Twelve P-3C maritime patrol aircraft could cost as much as \$4 billion, the Patriot PAC-3 system at least \$3 billion, and the planned purchase of a new C4ISR network around \$2.1 billion.

Against these high prices, Taiwanese military expenditures have been increasingly constrained. After experiencing steady growth in the early 1990s—due in large part to a special \$11.5 billion multiyear supplemental budget to purchase F-16 and Mirage 2000-5 fighter aircraft—military expenditures have fallen significantly in recent years—more than 20 percent between 1997 and 2003. This drop in defense spending is even more dramatic—over one-third between 1996 and 2003—when the budget is converted into U.S. dollars, the currency that would be used to pay for most of these arms imports.

The budget for the acquisition of new military equipment has suffered accordingly. In 2002, for example, Taiwan spent only \$1.6 billion on procurement and on research and development (R&D), down from \$1.85 billion in 2001. Procurement spending currently accounts for approximately 20 percent of Taiwan's total defense budget, compared to around one-third for China.

Compounding this situation, Taiwan is only now emerging from perhaps its worse economic slowdown in more than forty years. In 2001, Taiwan's gross domestic product (GDP) actually contracted by 2.2 percent and grew at a rate of only 3.6 percent in 2002; the economy has shown signs of recovery only in late 2003. This weak economic performance has put considerable pressure on the Chen government to hold down defense expenditures, including massive new arms procurement plans.

In contrast to Taiwan's recent experiences, China's defense budget has more than doubled in real terms since the mid-1990s. China's official 2004 defense budget is 207 billion yuan, or US\$25 billion—an 11.6 percent increase over the previous year and continuing an eight-year trend of double-digit real increases in Chinese military spending. In particular, Chinese funding for the procurement of new military equipment rose nearly 125 percent between 1997 and 2002, from \$3.1 billion to \$6.9 billion per year. Beijing spends more than three times as much on defense as does Taipei, and the *official* Chinese procurement budget—which does not include such hidden expenditures as R&D and arms imports—is at least four times greater.

To its credit, the Chen government recently announced it would request a new, special appropriations budget worth 700 billion New Taiwanese Dollars (US\$20 billion) over a ten-year period to fund many of these new arms programs, including submarines, P-3C aircraft, and the PAC-3. Nevertheless, this program, which must still be approved by Taiwan's legislature, has not yet been sent forward by the Defense Ministry and so is unlikely to be launched before 2005, at the earliest. Even then, it would be several years before any of these weapons could be acquired and operationally deployed. The first submarines, for example, would not enter service until 2013, and the PAC-3 not until near the end of this decade.

Many Taiwanese—particularly opposition politicians—have complained that they are being forced to pay inordinately high prices for weapons that are much cheaper elsewhere on the international arms market. For example, South Korea is buying German-made submarines at around \$367 million apiece, or about one-third the cost of submarines being offered to Taiwan. Admittedly, some of these higher costs are unavoidable: Taiwan would have to underwrite the expense of restarting P-3C production, for example, and the U.S. shipbuilding industry would have to resurrect from scratch its non-nuclear submarine manufacturing capability, including acquiring submarine designs from a foreign builder, such as Germany or Spain. Nevertheless, the price tag for some of these offered weapons has given Taipei cause for deliberation and delay. For example, the Chen government has held up making a final decision on procuring submarines in hopes that it can get a better deal, including the possibility of licensed production (see the next section).

Finally, some in Taiwan have protested that they are not being permitted to acquire the weapons they really need. In fact, the Bush administration deferred Taipei's request to buy Aegis-class destroyers, M-1A2 main battle tanks, Joint Direct Attack Munitions (JDAMs), and HARM anti-radiation missiles. Some in Taipei have argued that they should not be forced into buying weapon systems they do not need or which are "second-rate." These pressures have only further complicated and slowed the arms procurement decision-making process.

Buy versus Build: The Case of Submarines

Another factor in the delay in Taiwan's arms procurement decision making is strong domestic pressure to use these buys to aid the domestic defense industry. Taiwan's arms industry was particularly hard-hit by a falloff in orders in the late 1990s, and much of this sector now stands idle or underutilized. In recent years, for example, the state-owned China Shipbuilding Corporation was forced to lay off nearly half of its workforce and implement major pay cuts. Consequently, there is considerable economic interest in securing coproduction offsets in any future large weapons buys and thereby create new jobs in the local arms industry.

Additionally, many in Taiwan want to increase local production of high-technology weapon systems to reduce Taipei's almost singular dependency on the United States for advanced military systems. Taiwan's arms market is nearly wholly owned by the United States, mainly because it is the only country able to stand up to pressure from Beijing to not sell arms to Taipei. Most European arms producers, including France, Germany, and the United Kingdom, have in general refused to sell arms to Taiwan, out of respect for—or fear of—China. Beijing, for example, retaliated against France's sale of jet fighters and frigates in the early 1990s by interrupting trade and diplomatic relations with Paris until France agreed not to sell further armaments to Taiwan; in 1996, this agreement resulted in France's canceling the sale of Mistral surface-to-air missiles to Taiwan.

Pressure from Beijing also eventually forced the Netherlands to cancel the sale of four diesel-electric submarines to Taiwan in the early 1980s.

In the view of some Taiwanese, such an overwhelming reliance on the United States for advanced armaments has many negative aspects. In the first place, there are no assurances that the United States can or will guarantee delivery of certain weapons systems. Certainly this has been the case with submarines (for which Washington has so far been unable to acquire design and manufacturing technology from existing producers of diesel-electric submarines) and Aegis-class destroyers (which the United States has so far refused to sell). In addition, Taipei has to be mindful of the potential impact of growing U.S. influence and leverage, via arms sales, over its international affairs. In this regard, Taiwan could find its efforts to carry out an independent foreign policy stymied by a Washington prepared to use the withholding of arms or spare parts to check what it might perceive to be destabilizing unilateral actions by Taipei.

Both of these desires can be seen in Taiwanese efforts to secure an arrangement for the local construction of new submarines. Not only would it create jobs and channel some of the outlays for these submarines back into Taiwan's economy, but it would also help to reduce dependencies on the United States by establishing a domestic production and maintenance facility. Consequently, the Chen government has proposed its "2-2-2-2" plan for submarine acquisition, whereby the first two boats would be built entirely in the United States, but then transfer the technology necessary for Taiwan to produce one-third of the third and fourth boats, two-thirds of the fifth and six, and then the last two submarines entirely on its own. On the other hand, building some of these submarines locally rather than buying them all off the shelf would increase procurement costs—by perhaps as much as 20 percent—raise production risks, and likely add to the time it would take to acquire all eight boats.

Taiwan's Procurement Delays and Implications for U.S.-Taiwan Military Cooperation

Taipei may have sound economic, political, and military reasons for delaying its decision to procure the 2001 basket of weapon systems offered by the United States. At the same time, Taiwan has to be sensitive to the fact that this procrastination is having an adverse effect on its relations with the United States. Taiwan's continuing unwillingness or inability to come to a timely decision regarding this arms tender conveys the impression to its supporters in the United States that Taipei is not really serious about its own self-defense. It can take several years to acquire, deploy, and become operationally proficient with a new weapon system—particularly one that greatly expands or creates new military capabilities and therefore requires new tactics and training. This would be especially true for capabilities such as missile defense or a large submarine force. Taiwan must act sooner rather than later to prepare for threats that are likely ten years or more down the road; otherwise, the cross-strait military balance will tilt even further in favor of China.

Furthermore, these continued delays, together with the phenomenon of declining defense budgets, give the impression that Taiwan does not really take seriously the military threat from China. Worse, Taiwan's inaction might be indicative of local expectations that the United States will always ultimately come to Taiwan's defense in the event of crisis or conflict, and that Taipei can therefore "free-ride" on the U.S. security guarantee. Overall, Taipei's reluctance or slowness in taking action to correct a perceived, growing military imbalance across the Taiwan Strait is potentially harmful to U.S.-Taiwan relations, especially at a time

when Washington is increasing its political commitments to Taipei, expanding military ties with Taiwan (including designating Taiwan as a “major non-NATO ally”), and encouraging other countries in the Asia-Pacific to “quietly collaborate” with the island state on security matters.

Not surprisingly, Washington also expects Taipei to do more to boost its defenses, including increasing military spending and coming to decisions regarding recent U.S. offers of advanced arms. In particular, the U.S. government wants Taipei to establish clear and immediate procurement priorities, mainly regarding C4ISR, missile defense, and counter-blockade anti-submarine warfare. In this regard, complaints about U.S. pressure to buy certain weapons or about Washington’s refusal to sell other types of arms are not going to help Taiwan’s defense needs. It still remains a matter of underwriting resolve—of budgeting funds for capabilities that Taipei itself has said it needs. The cost of four Aegis-class destroyers, for instance, is estimated to be \$6 billion; if Taipei is serious about procuring Aegis-class ships, then this must be reflected in its defense budgets.

Nor does the “buy-versus-build” argument ultimately hold up, particularly if Taiwan is keen to reduce its arms dependency on the United States. Over the past decade Washington has certainly offered to sell many of its most advanced armaments to Taiwan—certainly more than any other country has been prepared

to do. But Taiwan can hardly turn elsewhere—least of all to itself. Taiwan’s defense industry suffers from a number of structural impediments, including a limited R&D base, weak systems integration/engineering capabilities, and excess manufacturing capacity, all of which pose enormous obstacles to further developing its productive capabilities and reducing Taiwan’s dependency on the United States for advanced arms. Even if the United States were able to transfer the necessary design and manufacturing technologies—e.g., to manufacture diesel-electric submarines—Taiwan would still face considerable hurdles in producing such highly complex weapons systems.

Taipei, for the sake of its indispensable relationship with the United States, needs to come to some decisions soon on these arms offers. This may, in fact, be underway. For example, in February 2004 there were press reports that the Chen government may try to push through a 500 billion New Taiwanese Dollars (US\$15 billion) special budget for buying U.S. weapons. This special appropriation—down from an original \$20 billion—could still be in jeopardy even after Chen’s apparent victory in the March 2004 election. The defeat of a referendum in favor of strengthening Taiwan’s missile defenses (held at the same time as the presidential election) has only further muddled the waters. Taiwan’s arms procurement dilemma is therefore hardly close to a resolution.



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